No. 06-937

In the

Supreme Court of the United States

QUANTA COMPUTER, INC.,
QUANTA COMPUTER USA, INC.,
Q-LITY COMPUTER, INC,
Petitioners,

v.

LG ELECTRONICS, INC,
Respondent.

On Writ of Certiorari
to the U.S. Court of Appeals
for the Federal Circuit

BRIEF OF THE LICENSING EXECUTIVES SOCIETY (U.S.A. & CANADA), INC. AS *AMICUS CURIAE* IN SUPPORT OF NEITHER PARTY

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IDENTITY AND INTEREST OF AMICUS CURIAE[1]

The Licensing Executives Society (U.S.A. & Canada), Inc. ("LES") is a non-profit professional society comprised of over 6,000 members engaged in the transfer, use, development, manufacture and marketing of intellectual property. LES's members include a wide range of professionals, including business executives, lawyers, licensing consultants, engineers, academicians, scientists and government officials, all of whom are engaged in the licensing of intellectual property. Members are employed by many large corporations, professional firms and universities. LES's purposes include: encouraging high standards and ethics among persons engaged in domestic and international licensing and transfers of technology and intellectual property rights; and assisting its members in improving their skills and techniques in those fields. With this broad-based constituency, LES is directly interested in the impact this Court's decision will have on the licensing of intellectual property, and patents in particular.

LES has received the consent of the parties in this case to file this brief.

SUMMARY OF THE ARGUMENT

This case highlights the tension between the doctrine of patent exhaustion as espoused in *Adams v. Burke*, 84 U.S. (17 Wall.) 453 (1873), and *United*

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[1] The parties have consented to the filing of this brief. Counsel for a party did not author this brief in whole or in part. No person or entity, other than the *Amicus Curiae*, its members, or its counsel, made a monetary contribution to the preparation and submission of this brief.

States v. Univis Lens Co., 316 U.S. 241 (1941), on the one hand, and the limitations on the patent exhaustion doctrine recognized in *General Talking Pictures Corp. v. Western Electric Co.*, 304 U.S. 175, *on reh'g*, 305 U.S. 124 (1938), and its progeny, on the other. In *General Talking Pictures*, the Court held that a knowing purchaser of products from a patent licensee who is violating the terms of a restricted patent license could be found to be a patent infringer, notwithstanding the patent exhaustion doctrine. On the other hand, the Court held in *Univis* that the patent exhaustion doctrine applies to a purchaser who knowingly buys an article from a patent licensee under a restricted license which disclaimed downstream purchaser license rights. Through these and other cases, the courts have given conflicting signals on whether a patentee may limit the doctrine of patent exhaustion by imposing conditions on sales of patented products by licensees. The Court should bring clarity and certainty to the issue of whether and to what extent a patentee may limit the doctrine of patent exhaustion through licensing terms.

In particular, there is confusion in the case law as to whether the patent exhaustion doctrine is a species of implied license or a limitation of the patent grant itself. This confusion is significant because notice to a purchaser of patented goods is a way of overcoming an implied license, but not a way of overcoming a limitation of the patent grant. Further, if exhaustion extinguishes the control by the patent laws of a given article, a license to use or sell that article is not required. If, however, exhaustion is a form of implied license, negation of that license is possible.

As discussed below, there are two conflicting lines of cases, one indicating that the patent exhaustion doctrine is a species of implied license, the other indicating. that the patent exhaustion doctrine is a limitation of the patent grant itself. The cases simply leave unresolved this fundamental question. The Court should bring clarity and certainty to the issue of whether the patent exhaustion doctrine is a species of implied license, or a limitation of the patent grant itself.

This issue is salient to the case at bar because the Federal Circuit's opinion notes that Intel notified the defendants pursuant to the license. The opinion, however, does not explain the relevance of the notification. Had Intel not notified defendants, would the outcome have been the same? Or even in view of the notice, is the nature of patent exhaustion such that petitioner, the downstream purchaser, cannot be an infringer. The answer is clouded by the confusion over whether the patent exhaustion doctrine is a species of implied license or a limitation of the patent grant itself.

Both patent licensees and licensors have an interest in knowing with certainty the consequences to downstream purchasers of products sold pursuant to a license agreement that authorizes the practice of something less than the full bundle of rights conferred by the patent. The Court is now in a position to resolve uncertainty in this area by issuing a ruling that clarifies and explains the continuing validity and scope of the patent exhaustion doctrine. LES urges the Court to provide such clarity.

ARGUMENT

I. THE COURT HAS GIVEN CONFLICTING SIGNALS ON WHEN THE DOCTRINE OF PATENT EXHAUSTION MAY BE LIMITED

The Court articulated the patent exhaustion doctrine more than a century ago in *Adams v. Burke*, 84 U.S. (17 Wall.) 453 (1873), which is regarded as the seminal case on the doctrine. Adams, the owner of a patent on coffin lids, granted rights to Lockhart to make, use, and sell patented coffin lids within a ten-mile radius from the center of Boston, Massachusetts. Burke, an undertaker, bought several coffins from Lockhart in Boston, which included the coffin lids that Lockhart was authorized to sell. Burke then used the coffins in Natick, Massachusetts, seventeen miles from Boston's center. Adams sued Burke for patent infringement. This Court affirmed the district court's dismissal of the patentee's infringement case against Burke as follows:

> [I]in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use. The article, in the language of the court, passes without the limit of the monopoly. That is to say, the patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular

> machine or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees.

Id. at 456.

Adams, as well as later exhaustion cases of this Court, indicates that exhaustion restricts the patentee's power to control a patented article after a first sale. Under *Adams*, this restriction applies even where the later use or disposition of the patented article was something that the patentee did not authorize the licensee to do, so long as the licensee's sale itself was authorized and unconditional. As stated by Chief Justice Taney in *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539 (1852), when the patented article "passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of Congress." *Id.* at 549.

In later cases, this Court made clear that there are limits on the patent exhaustion doctrine, such as where a purchaser knows that a licensee is violating the terms of a restricted patent license. In *General Talking Pictures Corp. v. Western Electric Co.*, 304 U.S. 175, *on reh'g*, 305 U.S. 124 (1938), the Court held that certain use-restricted patent licenses could be legal and that a patentee could enforce a breach of such restrictions by suing for patent infringement. The plaintiff owned patents on vacuum tube amplifiers that could be used in two separate fields: (1) "the commercial field of sound recording and reproducing, which embraces talking

picture equipment for theatres," and (2) "the private or home field, which embraces radio broadcast reception, radio amateur reception and radio experimental reception." The plaintiff granted exclusive licenses covering parts of the commercial field to members of a patent pool to which plaintiff belonged. Plaintiff also granted non-exclusive licenses restricted to the manufacture and sale of amplifiers for private or home use. The non-exclusive licenses required licensees to affix a notice to the amplifiers stating that the amplifiers were licensed solely for noncommercial use. One non-exclusive licensee, American Transformer Company, sold amplifiers to the defendant knowing that the defendant intended to provide them to commercial movie theaters. The defendant was aware of the restriction in the non-exclusive license.

In its original opinion, this Court held that the defendant, a knowing purchaser from a licensee who was violating the terms of a restricted patent license, was an infringer:

> The Transformer Company could not convey to petitioner what both knew it was not authorized to sell. ... Petitioner, having with knowledge of the facts bought at sales constituting infringement, did itself infringe the patents embodied in the amplifiers when it leased them for use as talking picture equipment in theaters.

General Talking Pictures, 304 U.S. at 181-82.

On rehearing, the Court reaffirmed the original result, stressing that, because of the breach

of the patent license, the infringing devices were not made and sold "under the patent" and thus did not pass "into the hands of a purchaser in the ordinary channels of trade." *General Talking Pictures*, 305 U.S. at 127.

General Talking Pictures concerned a licensee who was violating the terms of a restricted patent license. What about use restrictions that apply after the first sale of a patented product? This is where some tension appears between *General Talking Pictures* and the first-sale doctrine of *Adams*. *See, e.g., Mallinckrodt, Inc. v. Medipart, Inc.*, 15 U.S.P.Q.2d 1113, 1117-18 (N.D. Ill. 1990), *rev'd in part, vacated in part, & remanded*, 976 F.2d 700 (Fed. Cir. 1992) ("There clearly is some tension between *General Talking Pictures* and the earlier cases: *General Talking Pictures* might be read to say that post-sale restrictions can be enforced against purchasers (the Court found the purchasing defendant, GTP, liable for infringement), while the earlier exhaustion on sale cases would otherwise seem to say that that was not possible, or at least not under the patent laws.").

This Court gave guidance in *United States v. Univis Lens Co.*, 316 U.S. 241 (1941), but because the case arose in the context of a violation of the antitrust laws, the application of its principles in a pure patent scenario has been the subject of disagreement. *See, e.g., Armstrong v. Motorola, Inc.*, 374 F.2d 764, 75 (7th Cir. 1967) (stating that *Univis* "was a Sherman Act case in which the patentee had been using his patent to achieve resale price maintenance and therefore the case is not in point"); *American Indus. Fastener Corp. v. Flushing Enters.*,

Inc., 362 F. Supp. 32, 36 (N.D. Ohio 1973) ("*Univis* ... involves price restrictions, not territorial restrictions. Hence, *Univis* is not directly controlling."). *See generally* John W. Osborne, *A Coherent View of Patent Exhaustion: A Standard Based on Patentable Distinctiveness*, 20 SANTA CLARA COMPUTER & HIGH TECH. L.J. 643, 649 (2004) ("[A]lthough attempts have been made, and are still made today, to characterize *Univis Lens* as an antitrust or implied license decision, the fundamental holding was based entirely on the patent exhaustion doctrine.").

United States v. Univis Lens Co., 316 U.S. 241 (1941) reiterates the principle that exhaustion restricts the patentee's power to control a patented article after a first sale:

> Our decisions have uniformly recognized that the purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward for the use of his invention by the sale of the article, and that once that purpose is realized the patent law affords no basis for restraining the use and enjoyment of the thing sold. *Adams v. Burke*, *supra*, 456; *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659; *Motion Picture Co. v. Universal Film Co.*, 243 U.S. 502; and see cases collected in *General Pictures Co. v. Electric Co.*, 305 U.S. 124, 128, n. 1.

316 U.S. at 251.

In *Univis*, the patentee, Univis Corp., held a patent having claims directed to an eyeglass lens and the method for making the lens by producing, grinding, and polishing lens blanks. *Id.* at 243. Univis Corp. licensed its related company, Univis Lens, to manufacture lens blanks. Univis Lens sold those licensed blanks to wholesalers and retailers. *Id.* at 244-45. After purchasing the Univis Lens blanks, these wholesalers and retailers would finish the grinding and polishing of the lens blanks under license and through the practice of Univis Corp.'s method patent. *Id.*

The licenses to the wholesalers and retailers contained strict disclaimers and limitations on the rights granted by Univis Corp. to the individual licensees. One of the main issues before this Court was whether the patent laws permitted a patentee to prevent a purchaser of a licensed product (the lens blanks) from engaging in the steps necessary to complete and sell the finished product. In addressing a patentee's ability under the patent laws to exercise control over a patented product after a first sale, the Court stated that "where one has sold an uncompleted article which, because it embodies essential features of his patented invention, is within the protection of his patent, and has destined the article to be finished by the purchaser in conformity with the patent, he has sold his invention so far as it is or may be embodied in that particular article." *Id.* at 250-51.

Accordingly, the Court held that, since the unfinished lens blanks were sold under license from Univis Corp., and since the blanks had no use except

in practicing Univis Corp.'s patent, the patent rights respecting the lens blanks and their use as a finished product were exhausted on sale: "[T]he authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold. *Id.* at 249.

Thus, this Court in *Univis* held that the patent exhaustion doctrine applies, even if the purchaser knowingly buys the article from a licensee who is obligated under the patent license to fix the price at which the article may ultimately be sold. But the Court did not address the question of whether *General Talking Pictures* enjoys continuing vitality and, if so, to what extent. In *Univis*, the Court arguably overruled parts of *General Talking Pictures* by reaffirming the first sale doctrine in the area of price-fixing. *See* Robin Feldman, *The Open Source Biotechnology Movement: Is It Patent Misuse?*, 6 MINN. J.L. SCI. & TECH. 117, 147 n.147 (2004) ("[L]ater Supreme Court cases such as *United States v. Univis Lens*, 316 U.S. 241 (1942), have implicitly overruled portions of [*General Talking Pictures*] by reaffirming the first sale doctrine in the area of price-fixing.").

Did *Univis* truly overrule parts of *General Talking Pictures*? If so, is the holding of *Univis* limited to the area of price-fixing or does it extend into broader field of use restrictions? The Court has not handed down any decisions squarely dealing with the impact of field of use restrictions in licenses since its decision in *General Talking*

Pictures.[2] The Court should bring clarity and certainty to the issue of whether and to what extent a patentee may limit the doctrine of patent exhaustion by imposing conditions on licensees or their sales.

II. THE FEDERAL CIRCUIT'S OPINION IN *LG ELECTRONICS* IS AMBIGUOUS AS TO THE RELEVANCE OF A NOTICE PROVISION IN A CONDITIONAL PATENT LICENSE

As found by the Federal Circuit below, the LGE-Intel license "expressly disclaims granting a license allowing computer system manufacturers to combine Intel's licensed parts with other non-Intel components. Moreover, this conditional agreement required Intel to notify its customers of the limited scope of the license, which it did." *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364, 1376 (Fed. Cir. 2006). Pursuant to this agreement, Intel notified defendants that, although it was licensed to sell the products to them, defendants were not authorized under Intel's license to combine the products with non-Intel products. *Id.* at 1368.

The Federal Circuit's opinion notes that Intel notified the defendants as requested, but does not explain the relevance of the notification.

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[2] In *Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc.*, 339 U.S. 827 (1950), the parties contested a provision requiring a licensee to affix a notice to a product limiting its use to private, educational, and noncommercial uses. *Id.* at 834-35. But the Supreme Court declined to address the question, finding that the issue was not properly before the Court. *See id.* at 835-36. *See generally* Feldman, *supra*, at 147 n.145.

Had Intel not notified defendants, would the outcome have been the same? Or even in view of the notice, is the nature of patent exhaustion such that petitioner, the downstream purchaser, cannot be an infringer. The answer is unclear. The Court should bring clarity and certainty to this issue.

This Court first addressed whether knowledge or intent on the part of the defendant could alter application of the patent exhaustion rule in *Hobbie v. Jennison*, 149 U.S. 355 (1893). In *Hobbie*, a licensee for the State of Michigan (Jennison) sold and delivered patented pipes knowing that the purchaser intended to use the pipes in Hartford, Connecticut, a territory which was not licensed to Jennison. An attempt was then made to distinguish the case from *Adams* on the ground that the sale was made with the knowledge and intention on the part of the defendant that the use would be at Hartford. This Court rejected this argument and held that "neither the actual use of the pipes in Connecticut, or a knowledge on the part of the defendant that they were intended to be used there, can make him liable." *Id.* at 363.

In *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659 (1895), this Court held that neither the seller's nor the purchaser's knowledge or intent was relevant to the application of the patent exhaustion doctrine. In that case, the seller, a licensee under the patent, knew that its customer intended to use the goods in the territory of another. Citing the exhaustion doctrine, this Court stated that "it is competent for one to sell the patented articles to persons who intend, with the knowledge of the vendor, to take them for use into the territory of the

other." *Id.* at 666. The Court based its decision on the principle of patent exhaustion that "the purchase of the article from one authorized by the patentee to sell it, emancipates such article from any further subjection to the patent ...." *Id.*

In *Univis*, there was an express disclaimer that the license granted was nothing more than "the privilege of selling the patented invention in the manner and to the extent stated." 316 U.S. at 245. This Court held that this disclaimer did not curtail application of the first sale doctrine.

If the Federal Circuit's opinion in *LG Electronics* turned on the notice provision, then is there a conflict with *Univis*? If there is a conflict with *Univis*, then should *Univis* be overruled or limited so that an appropriate notice provision in a license agreement relieves a patentee from the burden of having to contend with the patent exhaustion doctrine? Or should the Federal Circuit's decision be reversed so that purchasers of patented products from a licensee acting within the scope of its license have the freedom to use and resell them as they wish? The Court should bring clarity and certainty to the issue of whether a notice provision in a conditional patent license is relevant to the application of the patent exhaustion doctrine.

III. THERE IS CONFUSION IN CASE LAW AS TO WHETHER THE PATENT EXHAUSTION DOCTRINE IS A SPECIES OF IMPLIED LICENSE OR A LIMITATION OF THE PATENT GRANT ITSELF

Notice is a way of overcoming an implied license, but not a way of overcoming a limitation of

the patent grant. This point raises the following fundamental question: Is the patent exhaustion doctrine a species of implied license or a limitation of the patent grant itself? There are two conflicting lines of cases.

Several cases indicate that the patent exhaustion doctrine is a species of implied license. *See, e.g., Glass Equipment Development, Inc. v. Besten, Inc.*, 174 F.3d 1337, 1342 (Fed. Cir. 1999) ("When, as here, a party argues that the sale of a device carries with it an implied license to use that device in practicing a patented invention, that party has the burden to show that, inter alia, the purchased device has no noninfringing uses."); *Carborundum Co. v. Molten Metal Equipment Innovations, Inc.*, 72 F.3d 872, 878 (Fed. Cir. 1995) (noting "two requirements for the grant of a license implied by the sale of nonpatented equipment used to practice a patented invention); *Met-Coil Systems Corp. v. Korners Unlimited, Inc.*, 803 F.2d 684, 686-87 (Fed. Cir. 1986) (holding that sale of nonpatented equipment to practice patented invention results in implied license).

Other cases indicate that the patent exhaustion doctrine is a limitation of the patent grant itself. *See, e.g., Univis*, 316 U.S. at 252 ("The first vending of any article manufactured under a patent puts the article beyond the reach of the monopoly which that patent confers."); *Intel v. ULSI Sys. Tech., Inc.*, 995 F.2d 1566, 1568 (Fed. Cir. 1993) (upholding patent exhaustion defense: "[T]he law is well-settled that an authorized sale of a patented product places the product *beyond the reach of the patent*.") (emphasis added); *Intel Corp. v. U.S.*

International Trade Commission, 946 F.2d 821, 826 (Fed. Cir. 1991) ("If the Intel/Sanyo agreement permits Sanyo to act as a foundry for another company for products covered by the Intel patents, the purchaser of those licensed products from Sanyo would be free to use and/or resell the products. Such further use and sale is *beyond the reach of the patent statutes*.") (emphasis added).

This doctrinal split in post-*Univis* cases clouds the answer to the question of whether the patent exhaustion doctrine is a species of implied license or a limitation of the patent grant itself. The interplay between patent and contract rights in the realm of patent exhaustion was recognized in *Adams*. 84 U.S. at 456 (noting that the "limitation upon the right of use" was "not contemplated by the statute *nor within the reason of the contract*") (emphasis added). Twenty years later, the Court in *Keeler* explicitly reserved judgment on the issue of whether a patentee could enforce an express limitation on use or resale under contract law. 157 U.S. at 660 ("Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before the court and upon which it expresses no opinion.").

Thereafter, in several cases nullifying express license conditions on resale, the Court suggested that patentees could not enforce such limitations under contract law. *See Motion Picture Patents Co. v Universal Film Mfg. Co.*, 243 U.S. 502, 516 (1917) ("[I]t is not competent for the owner of a patent by notice attached to its machine to, in effect, extend the scope of its patent monopoly by restricting the

use of it to materials necessary in its operation but which are no part of the patented invention, or to send its machines forth into the channels of trade of the country subject to conditions as to use or royalty to be paid to be imposed thereafter at the discretion of such patent owner."); *Straus v Victor Talking Mach. Co.*, 243 U.S. 490, 501 (1917) (finding resale price restrictions in a "license notice" affixed to a product to be invalid as "a mere price-fixing enterprise"); *Univis*, 316 U.S. at 250-51 (nullifying resale price restrictions in license agreements for patented items because a sale "exhausts the monopoly in that article").

As one commentator has noted, the *Motion Picture Patents*, *Straus*, and *Univis* cases "might be distinguished as independent of the first sale doctrine on the grounds that the restrictions were unlawful trade restraints. However, the Court made no such distinction and the decisions can be reasonably interpreted to hold that the first sale doctrine was a fixed limitation, not simply a default rule." Glen O. Robinson, *Personal Property Servitudes*, 71 U. CHI. L. REV. 1449, 1466 (2004). This point is important because it goes to the heart of whether the patent exhaustion doctrine is a limitation of the patent grant itself, or is a principle that can be overcome through policy considerations or simply notice to the buyer of patented goods. The Court should bring clarity and certainty to the issue of whether the patent exhaustion doctrine is a species of implied license or a limitation of the patent grant itself.

CONCLUSION

For the foregoing reasons, the Licensing Executives Society (U.S.A. & Canada), Inc. requests that the Court's ruling in this case provide the certainty desired by licensees and licensors in the area of the patent exhaustion doctrine.

Respectfully submitted,

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